

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:)
APPLICATION OF ANSON GAS)
CORPORATION)

~~CASE NO. 11,109~~

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

~~NOVEMBER 10, 1994~~

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, November 10th, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

November 10th, 1994
 Examiner Hearing
 CASE NO. 11,129

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* * *

A P P E A R A N C E S

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FOR THE APPLICANT:

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By: TANYA M. TRUJILLO

* * *

1 WHEREUPON, the following proceedings were had at
2 10:47 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,129.

5 MR. CARROLL: Application of AnSon Gas
6 Corporation for compulsory pooling and an unorthodox oil
7 well location, Lea County, New Mexico.

8 EXAMINER CATANACH: Are there appearances in this
9 case?

10 MS. TRUJILLO: Mr. Examiner, I'm Tanya Trujillo
11 from the Santa Fe law firm Campbell, Carr, Berge and
12 Sheridan, here today on behalf of the Applicant, AnSon Gas
13 Corporation.

14 I have two witnesses to be sworn.

15 EXAMINER CATANACH: Any additional appearances?
16 Will the witnesses please stand to be sworn in?
17 (Thereupon, the witnesses were sworn.)

18 MS. TRUJILLO: Mr. Examiner, The first witness is
19 Charles Lundeen.

20 CHARLES E. LUNDEEN,
21 the witness herein, after having been first duly sworn upon
22 his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MS. TRUJILLO:

25 Q. Mr. Lundeen, could you state your full name and

1 place of residence for the record, please?

2 A. Charles E. Lundeen, and I live in Edmond,
3 Oklahoma.

4 Q. By whom are you employed and in what capacity?

5 A. I'm a land manager for Anson Gas Corporation.

6 Q. Have you previously testified before this
7 Division or one of its examiners and had your credentials
8 as a landman accepted and made a matter of the record?

9 A. Yes, I have.

10 Q. Are you familiar with the Application filed in
11 this case?

12 A. Yes, I am.

13 Q. And are you familiar with the subject area
14 referenced in this case?

15 A. Yes, I am.

16 MS. TRUJILLO: Mr. Examiner, are the witness's
17 qualifications acceptable?

18 EXAMINER CATANACH: Yes, they are.

19 Q. (By Ms. Trujillo) Mr. Lundeen, could you briefly
20 state what AnSon seeks with this Application?

21 A. AnSon seeks to pool those named respondents from
22 the surface to the base of the Atoka formation underlying
23 the north half, southeast quarter, Section 15, 17 South, 37
24 East, Lea County, New Mexico.

25 Q. Okay. Have you prepared an exhibit or exhibits

1 for this case?

2 A. Yes, I have.

3 Q. Could you refer to Exhibit Number 1, please?

4 A. Exhibit Number 1 is a land plat depicting Section
5 15 and the 80-acre unit that we're pooling, and it also
6 shows the proposed location of our proposed well and
7 AnSon's working interest currently.

8 Q. Okay. Now, could you describe this location,
9 please?

10 A. The location is 2130 feet from the south line and
11 510 feet from the east line, putting it 510 feet from the
12 north boundary, 510 feet from the east boundary of our
13 unit.

14 Q. And is this an orthodox location?

15 A. I'm somewhat unclear as to whether or not it is.
16 It's my understanding that we're not moving closer than 510
17 feet to the east line, we're not moving closer than 510
18 feet to the north line.

19 When we filed our Application, our attorney filed
20 it as an unorthodox location. We've been discussing it. I
21 don't think it is, but I'm not sure.

22 It's my understanding you can't be closer than
23 510 feet to the boundary.

24 EXAMINER CATANACH: I believe that's a standard
25 location.

1 THE WITNESS: It's my understanding that it was
2 too, from the north line or from the east line, but...

3 MS. TRUJILLO: With the Examiner's permission, we
4 will amend to request a standard location.

5 EXAMINER CATANACH: Okay.

6 Q. (By Ms. Trujillo) Okay. Mr. Lundeen, referring
7 back to Exhibit Number 1, could you identify the status of
8 the acreage, then, please?

9 A. Exhibit Number 2 shows the current status of all
10 acreage within this unit.

11 The top portion of Exhibit Number 2 is the
12 mineral owners that we, being AnSon, has leased, are 83.632
13 percent.

14 The next group of mineral owners are those who
15 have elected to participate and have paid their share of
16 costs and have executed operating agreements and AFEs.

17 And the bottom part being those parties which we
18 are pooling, and those are the percentages that they own.

19 And we've come to agreement with two parties who
20 we've named as respondents. I'd like to dismiss those
21 parties. That's Charles F. Doornbos, Trustee, and Norma
22 Jean Chanley. Those parties have since the time of this
23 Application executed agreements and paid their share of
24 costs.

25 Q. Okay, so you request that those two parties be

1 dismissed?

2 A. Yes, I do.

3 Q. Were there any owners that you were unable to
4 locate?

5 A. No, we have located all owners in this unit.

6 Q. And again, reviewing -- What percentage of the
7 acreage is voluntarily committed then?

8 A. 80 -- Well, 82.632, plus the 2.625 percent that's
9 participating. All but 14.743 percent is voluntarily
10 committed.

11 Q. Okay. So again, to review, how many interest
12 owners have you identified who are subject to the pooling
13 Application now?

14 A. Just three.

15 Q. Okay. In your opinion, have you made a good-
16 faith effort to locate all of the individuals and to obtain
17 their joinder?

18 A. Yes, we have.

19 Q. Could you review those efforts, please?

20 A. We've been in contact with all parties on
21 numerous occasions throughout 1994. We've sent operating
22 agreements, AFEs, I've sent them my broker has sent them,
23 we've talked to people.

24 In fact, one of the respondents, we expect their
25 agreement to be in any day, but it wasn't here at the time

1 of the pooling.

2 But we've made numerous efforts, and our letters
3 will reflect that.

4 One company, being Bonneville Fuels, that we are
5 pooling notified us that they have seven partners and they
6 sent us a copy of an assignment showing who they're getting
7 ready to assign all their interest to, and we went so far
8 as to send all those parties who are not even of record
9 copies of our operating agreements, AFEs, proposal letters,
10 and are working with them.

11 Q. Could you move to what has been marked as AnSon
12 Exhibit Number 3, please?

13 A. That's our authority for expenditure.

14 Q. Okay. What are the totals indicated by this
15 exhibit?

16 A. Estimated drilling costs for this well are
17 \$433,900 for a dry hole, \$317,100 in additional completion
18 costs, if successful, for a total completed well cost of
19 \$751,000.

20 Q. Are these costs in line with what has been
21 charged by other operators in the area for similar wells?

22 A. Yes, they are, and AnSon has pooled and drilled
23 several wells in this immediate area just recently, and
24 they're very much in line with those costs we've just
25 drilled.

1 Q. Okay. Mr. Lundeen, we have marked Exhibit Number
2 4. Could you identify that, please?

3 A. These are letters that we've sent out to all
4 working interest owners, attempting to get their voluntary
5 joinder, and -- That's all.

6 Q. And some letters back; is that correct?

7 A. Right, it's all correspondence to and from the
8 parties that we've been in contact with.

9 MS. TRUJILLO: Okay. Mr. Examiner, Exhibit
10 Number 5 is an affidavit by me indicating notice given to
11 five individuals or companies of this Application.

12 Q. (By Ms. Trujillo) Mr. Lundeen, have you made an
13 estimate of the overhead and administrative costs while
14 drilling this well and also while producing this well, if
15 it is a successful well?

16 A. Yes, we would recommend \$6000 a month drilling
17 and \$600 a month producing.

18 Q. Okay. Do you recommend that -- Do you request
19 that these costs be escalated to conform with more recent
20 surveys?

21 A. These are the most recent surveys that we have,
22 and if they have in fact been changed over time, then we
23 would request they be escalated.

24 These costs were adopted by the Oil Conservation
25 Division in our June 3rd, 1994, order and our September

1 15th, 1994, drilling orders also.

2 Q. And are these costs in line with the rates being
3 charged by other operators in the area?

4 A. Yes.

5 Q. And again, do you recommend that these figures be
6 incorporated into any order that results from this hearing?

7 A. Yes, I do.

8 Q. Mr. Lundeen, does AnSon seek to be the designated
9 operator of the proposed well?

10 A. Yes, AnSon Gas Corporation, yes.

11 Q. Okay. Mr. Lundeen, were Exhibits 1 through 5
12 prepared by you or compiled under your direction and
13 supervision?

14 A. Yes, they were.

15 MS. TRUJILLO: Mr. Examiner, I have no further
16 questions for the witness, and I offer Exhibits 1 through 5
17 into evidence.

18 EXAMINER CATANACH: Exhibits 1 through 5 will be
19 admitted as evidence.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Mr. Lundeen, you've reached an agreement with
23 everybody except the three parties you've listed as
24 leasehold mineral owners being pooled?

25 A. Yes, sir.

1 Q. Is there -- What's the status of those
2 negotiations?

3 A. Well, Hillin-Simon, I called them before the
4 hearing, and they think they may have placed their interest
5 with a third party. They're not sure, but they will elect
6 under the order. I gave them an opportunity right before
7 the hearing to fax us something.

8 Bonneville Fuels has notified all of their
9 partners. We've had some of their partners who have
10 elected to participate in our well, and they've sent us
11 some fax, but none of them are of record. And since we
12 haven't heard from Bonneville directly I hated to dismiss
13 Bonneville, because none of the other partners have any
14 leasehold interest of record at this time.

15 And Sun-West Oil and Gas Company, we have signed
16 letter agreements from them, but we do not have all of the
17 agreements in at this time.

18 Q. Okay. Has AnSon drilled a Strawn well in this
19 area recently?

20 A. Yes, sir, in Section 2, just to the north, we
21 just drilled a dry hole, and we drilled two wells in the
22 township to the east and are getting ready to drill another
23 next week.

24 Q. Those drilling costs are in line with those
25 you've already --

1 A. Yes, sir, they're all the same type of wells.
2 All of them are Strawn wells.

3 Q. Okay. Your proposed overhead rates are -- You
4 said they were not current?

5 A. To my knowledge, they're current. I was
6 referring that if they have in fact changed, we would be
7 glad to escalate them if necessary.

8 EXAMINER CATANACH: Okay, I don't have anything
9 else of the witness.

10 You may be excused.

11 By the way, my calculations do show that that
12 location is unorthodox.

13 MS. TRUJILLO: Is orthodox or -- ?

14 EXAMINER CATANACH: Unorthodox. It appears to be
15 212 feet from the center of that quarter-quarter section,
16 which is more than the 150 feet tolerance.

17 MS. TRUJILLO: Okay.

18 THE WITNESS: So it's from a circular point of
19 that --

20 EXAMINER CATANACH: It's -- Well, what the rules
21 say is within 150 feet of the center --

22 THE WITNESS: Okay.

23 EXAMINER CATANACH: -- of the quarter section.
24 So we assume that it's just a circular-type situation.

25 THE WITNESS: Okay. So at a diagonal, we would

1 be a little too far?

2 EXAMINER CATANACH: Right --

3 THE WITNESS: Okay.

4 EXAMINER CATANACH: -- 212 feet.

5 THE WITNESS: That being the case, which we
6 didn't know -- We thought it was just from each line and
7 not at a diagonal.

8 EXAMINER CATANACH: Right.

9 THE WITNESS: Amerada Hess Corporation owns an
10 interest in the offset, and I guess we'd request that we
11 have a couple weeks to notify them, because -- We did not
12 notify them because we didn't know it was unorthodox.

13 EXAMINER CATANACH: Okay. It's going to take
14 more than two weeks, because you're supposed to provide 21
15 days' notice.

16 THE WITNESS: Okay. Well --

17 EXAMINER CATANACH: So what we're going to have
18 to do is readvertise -- or not readvertise but just give
19 them time to notice them for the December 15th hearing.

20 THE WITNESS: Okay.

21 EXAMINER CATANACH: Is that right?

22 MR. CARROLL: Yeah, we have a hearing on the 1st,
23 so two weeks after that.

24 (Off the record)

25 EXAMINER CATANACH: Yeah, if you can get that

1 notice probably out today --

2 THE WITNESS: Uh-huh.

3 EXAMINER CATANACH: -- we can take care of this
4 on the December 1st hearing.

5 THE WITNESS: Okay, we can do that.

6 EXAMINER CATANACH: Ms. Trujillo, do you have
7 some testimony as to the need for the unorthodox location?

8 MS. TRUJILLO: We do, Mr. Examiner.

9 EXAMINER CATANACH: Okay, you may proceed.
10 The witness may be excused.

11 (Off the record)

12 MS. TRUJILLO: Mr. Examiner, I have Hal Hawthorne
13 who is a geologist for Anson.

14 HAL E. HAWTHORNE,

15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MS. TRUJILLO:

19 Q. Mr. Hawthorne, could you state your name and
20 place of residence, please, for the record?

21 A. My name is Hal Hawthorne, and I'm a geologist for
22 AnSon Gas Corporation. I live in Edmond, Oklahoma.

23 Q. Okay. Have you previously testified before this
24 Division or one of its examiners?

25 A. Yes, I have.

1 Q. Have your credentials as a petroleum geologist
2 been accepted and made a part of the record?

3 A. Yes, they have.

4 Q. Are you familiar with the Application filed in
5 this case?

6 A. I am.

7 Q. And are you familiar with the subject area?

8 A. Yes, I am.

9 MS. TRUJILLO: Mr. Examiner, are the witness's
10 qualifications acceptable?

11 EXAMINER CATANACH: Yes, they are.

12 Q. (By Ms. Trujillo) Mr. Hawthorne, have you
13 prepared an exhibit for this case?

14 A. Yes, I have.

15 Q. And that exhibit is marked as Exhibit 6; is that
16 correct?

17 A. That's correct.

18 Q. Could you identify and review Exhibit 6, please?

19 A. Exhibit 6 is a porosity map from the lower Strawn
20 limestone, a map on porosity over four percent. It also
21 reflects wells that are currently or have been productive
22 from this member with a circle around the well spot.

23 This map shows all of Section 15 as well as
24 portions of 10, 11 and 14. It also outlines our 80-acre
25 proration unit as well as our proposed Shipp location with

1 a red dot.

2 Q. Okay. Now, the Examiner has indicated that this
3 is an unorthodox well location and that the -- I believe
4 the orthodox well location would be to the southwest; is
5 that correct?

6 A. That's correct.

7 Q. Could you explain the difference between the
8 orthodox location and the present proposed unorthodox
9 location?

10 A. Well, typically out here, the nature of these
11 mounds are so small and the porosity distribution from the
12 lower Strawn is so erratic in the Shipp field it's been
13 standard to utilize the field spacing tolerance of 150
14 feet, which when I originally picked this location, which
15 -- as per the isopach map, I was optimizing what I thought
16 was the best spot to drill within the Shipp field rules of
17 the 510-510 tolerance, and I've since found out that that
18 is not the correct footage for this location.

19 But as per this map, you can see why I would
20 rather, you know, utilize that tolerance for geological
21 reasons.

22 Q. So you recommend maintaining the unorthodox
23 location?

24 A. Yes, I do.

25 Q. Okay. And has Anson drilled other wells in this

1 immediate area, Strawn wells?

2 A. Yes, we have.

3 Q. And where were they located?

4 A. We drilled a well just a couple miles to the
5 north in Section 2, as well as two wells to the east, about
6 four miles to the east.

7 Q. Okay. Are you prepared to make a recommendation
8 to the Examiner as to the risk penalty that should be
9 assessed against nonconsenting interest owners?

10 A. Yes, I am. You can see that as per my isopach,
11 we are crowding a couple of dry holes, one being the
12 Manzano Shaw well, which did penetrate an algal mound,
13 which was totally cemented up.

14 And therefore, you know, we feel that there's a
15 chance that this mound could be totally tight and cemented
16 and, you know, we feel like the riskiness of this proposal
17 would merit the maximum 200-percent penalty.

18 Q. So you believe that there is a chance that you
19 could drill a well at the proposed location that would not
20 be a commercial success?

21 A. Yes, I do.

22 Q. Mr. Hawthorne, in your opinion, will granting
23 this Application be in the best interests of conservation,
24 the prevention of waste and the protection of correlative
25 rights?

1 A. Yes, I do.

2 Q. Mr. Hawthorne, what plans do you have to spud the
3 well? When do you plan to?

4 A. As soon as an order can be issued and we can get
5 a rig over there.

6 Q. Okay. Was Exhibit 6 prepared by you?

7 A. Yes, it was.

8 MS. TRUJILLO: Mr. Examiner, I have no further
9 questions for Mr. Hawthorne, and I offer Exhibit 6 into
10 evidence.

11 EXAMINER CATANACH: Exhibit 6 will be admitted as
12 evidence.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Hawthorne, those two wells that penetrated
16 that structure, those were both dry holes?

17 A. Yes, sir.

18 Q. Has any other well penetrated that structure?

19 A. No, sir.

20 Q. Okay. Did you utilize just well control to map
21 the structure?

22 A. Predominantly well control. It was a subsurface
23 geological prospect at first.

24 I had the opportunity over a year ago to see some
25 seismic, which gave me a little credibility as to what I

1 was trying to do. But it was a proprietary line that I was
2 just allowed to look at and not own so...

3 But it's -- Predominantly, it's a subsurface
4 geological prospect, based on the Manzano Shaw well.

5 Q. According to your geologic interpretation, a move
6 southwest will take it out of the -- or you may encounter a
7 less thicker portion of the reservoir?

8 A. Yes, sir.

9 EXAMINER CATANACH: I don't know if -- This
10 location is only about 50 feet or so, I believe.

11 Okay. I don't have anything further of the
12 witness.

13 What we'll do is, you guys provide notice to
14 Amerada Hess, we'll go ahead and continue this case to
15 December 1st, and unless Amerada plans on coming in and
16 objecting I don't suppose you'd have to come back in and
17 present anything else at that time.

18 So, is there anything else?

19 MS. TRUJILLO: No, Mr. Examiner. I'll bring
20 the -- an affidavit indicating notice was given --

21 EXAMINER CATANACH: Okay.

22 MS. TRUJILLO: -- at the December 1st hearing.

23 EXAMINER CATANACH: Okay.

24 MR. LUNDEEN: I called my broker up here, just in
25 case we did need to notify them. And we're checking to

1 make sure that there's no other partners that they may have
2 that's over -- There may be additional parties, don't
3 know. Maybe --

4 EXAMINER CATANACH: Okay, that's fine. Whatever
5 you find that to be.

6 Okay, that being the case, this case will be
7 continued to the December 1st docket.

8 MS. TRUJILLO: Thank you.

9 EXAMINER CATANACH: Thank you.

10 (Thereupon, these proceedings were concluded at
11 11:09 a.m.)

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) SS.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL November 13th, 1994.

[Handwritten signature of Steven T. Brenner]

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete and correct transcript of the proceedings in the examination of Case No. 11129, heard by me on November 10, 1994.

[Handwritten signature of David R. Catant]
_____, Examiner
Oil Conservation Division